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MEMORANDUM FOR: THE RECORD

The attached material on the outlook for Soviet economic growth and balance of payments was requested by Robert L. Harlow of Treasury's Office of International Monetary Affairs.

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Chief
Trade Branch
Soviet Economy Division
Office of Soviet Analysis

Date 20 April 1983

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(20 April 83)

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Memorandum

ACTION BRIEFING INFORMATION

FOR:

DATE: March 28, 1983

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FROM: Robert L. Harlow RH

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SUBJECT: Treasury World Economic Outlook

We are beginning another round of forecasting in preparation for the OECD Ministerial (early in May) and the Economic Summit. We would once again like to have your estimates and forecasts for GNP growth rates and current account balances for Eastern Europe, China, and the U.S.S.R., together with such text as you consider appropriate in describing the economic situation. We would like to extend the forecast in this round to 1984, so that we are particularly interested in having estimates for the years 1981-84. The resulting WEO document will be classified Confidential.

Please send your forecasts by Thursday, April 21, to me at:

Office of International Monetary Affairs
Room 5050
Treasury Department

With many thanks.

	INITIATOR	REVIEWER	REVIEWER	REVIEWER	REVIEWER	SECRETARY
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UNCLASSIFIEDContribution to Treasury World Economic Outlook PaperUSSR

The Soviet economy performed sluggishly in 1982. GNP grew about 2 percent, well below the 4 percent average annual rate of growth called for in the 1981-85 plan. While a number of factors were responsible for the lackluster performance of the Soviet economy, perhaps most important was the increasing severity of bottlenecks throughout the economy.

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To date, General-Secretary Andropov has not instituted any bold, new strategy to counteract or lessen the impact of the factors constraining economic growth. The one concrete move he has made--"new" only in being harsher than what his predecessors on occasion attempted--is the "discipline campaign" and the crackdown on corruption. Even if this policy works, the best the Soviets can hope for is a one time gain, perhaps lasting a year or two at best. Even then, the benefits may be only minimal. All things considered, we expect the Soviet economy to continue to grow slowly during the remainder of the 11th Five-Year plan period.

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In contrast to the lackluster domestic performance, Moscow's effort to reverse the slide in its hard currency payments position paid sizable dividends in 1982. A 10-percent jump in exports--mainly due to sharply stepped-up oil sales--combined with a slight drop in imports to slice the trade deficit to \$1.3 billion, a level only one-third that of 1981. This together with an apparent jump in sales of major weapons systems to the LDCs resulted in a current account surplus of \$4 billion. Even with a

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sizable unrecorded outflow--such as substantial Soviet credits to cover sales of machinery and arms to the LDCs and oil to Western Europe--the USSR probably was able to reduce slightly its hard currency debt. By yearend 1982 net debt stood at an estimated \$12.2 billion. The Soviet payments position could deteriorate this year and next, however, due to a likely erosion in oil exports. Recent declines in world market oil prices already are cutting into Soviet revenues in 1983.

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Table 1

USSR: Real GNP Growth Rates

(percent)

<u>1981</u>	<u>1982</u>	<u>Projected</u> <u>1983</u>	<u>Projected</u> <u>1984</u>
2.2	2.0	2-3 ^a	2-3 ^a

^a GNP growth could be 3 percent or even higher if the weather is good and agriculture has a "normal" year. On the other hand, it could be 2 percent or lower if weather conditions are poor and industrial bottlenecks worsen.

Table 2

USSR: Hard Currency Payments Position

(Billion US dollars)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>Projected</u> <u>1983</u>	<u>1984</u>
Current account	2.2	1.9	-0.1	4.2	2.0	0.5
Trade	-2.0	-2.5	-4.0	-1.3	-2.5	-4.0
Invisibles, transfers, and military sales to LDCs ^a	4.2	4.4	3.9	5.5	4.2	4.5
Non-monetary gold sales	1.5	1.6	2.7	1.1	1.5	2.5

^a This item excludes the value of arms related commercial exports already included in the reporting on Soviet exports to individual LDCs.